CHAPTER 26: ADJUSTABLE PAYMENT MORTGAGE POOLS AND LOAN PACKAGES — SPECIAL REQUIREMENTS

26-1: OVERVIEW OF CHAPTER

This chapter describes special requirements that apply for a pool or loan package of adjustable payment mortgages. The requirements described in this chapter may modify, supplement or, in some cases, repeat for the purpose of emphasis those set forth in previous chapters with respect to mortgage eligibility, pool and loan package requirements, required pool and loan package submission documents, securities marketing disclosures, securities interest rates, and administering pools and loan packages. The pool suffix is either "C AR," "M AR," or "M AQ." The three pool and loan package types may be referred to collectively as "APM" pools or loan packages.

APM pools can be formed only under the Ginnie Mae II MBS Program.

An adjustable payment mortgage is a mortgage with an amortization schedule that provides for changes in monthly payments based on adjustments to the interest rate or other term of the mortgage. The interest rate on an APM mortgage is adjusted annually, based on the weekly average yield of U. S. treasury securities adjusted to a constant maturity of one year. There are three APM pool and loan package designations, one involving custom pools and the other two involving multiple issuer pools, with the following meanings:

> "C AR" identifies an APM custom pool. The first interest adjustment date for each mortgage must occur at least one month, but not more than 18 months, after the first payment date on the mortgage. The first interest adjustment date for the securities must occur from one to 15 months after the issue date;
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> "M AR" identifies an APM multiple issuer pool or loan package. The first interest adjustment date for each mortgage must occur at least 12 months, but not more than 18 months, after the first payment date on the mortgage. The first interest adjustment date for the securities must occur from 13 to 15 months after the issue date; and

Section 26-1 (continued)

"M AQ" identifies an APM multiple issuer pool or loan package. The first interest adjustment date for each mortgage must occur at least 12 months, but not more than 18 months, after the first payment date on the mortgage. The first interest adjustment date for the securities must occur exactly 12 months after the issue date, which must be on January 1, April 1, July 1, or October 1.

26-2: MORTGAGE ELIGIBILITY, POOL, AND LOAN PACKAGE REQUIREMENTS

The mortgage eligibility, pool, and loan package requirements that apply, with limited exceptions, to all pool types are found in Chapter 9. The mortgage, pool, and loan package eligibility requirements for SF pools and loan packages found in Chapter 24 also apply for APM pools and loan packages, except as modified by this section.

(A) Mortgage Eligibility Requirements

(1) Amortization: Each mortgage in a pool or loan package must provide for full repayment over the life of the loan in accordance with an amortization schedule that provides for annual adjustments to mortgagor payments based on changes in an interest rate index. The first interest rate adjustment, however, does not have to take place on the first anniversary of the loan. Each year's adjusted payment must be sufficient to retire the remaining principal balance of the loan during the remaining life of the loan on a level monthly payment basis. Graduated payment amortization provisions are not permitted in APM mortgages.

An APM must not require repayment in equal monthly installments throughout the term of the loan. Total payments over the entire amortization of an APM may be higher or lower than the total of such payments with respect to a level payment loan.

(2) Initial mortgage interest rate: Each mortgage in a pool or loan package must bear an initial rate of interest at least 50 basis points, but not more than 150 basis points, higher than the initial rate of interest on the related securities.

Section 26-2(A) (continued)

(3) Mortgage interest rate adjustments: Each mortgage in a pool or loan package must use the "margin" method for making adjustments and must have the same interest rate adjustment date and payment adjustment date as every other mortgage in the pool or loan package. In addition, the interest rate adjustment dates and payment adjustment dates for a given pool or loan package must satisfy the requirements set forth in the following tables:

Mortgages backing securities issued on the first day of:	Shall have **initial interest adjustment** at least 12 but no more than 18 months after the first payment date on:	Shall have **annual interest adjustments** thereafter on:	Shall have **payment adjustments** always 30 days later than the interest adjustments, on:
FOR AR MULTIPLE ISSUER POOLS:			
Jan., Feb. Mar.,	April 1	April 1	May 1
Apr., May, June,	July 1	July 1	August 1
July, Aug., Sept.,	October 1	October 1	November 1
Oct., Nov., Dec.	January 1	January 1	February 1
FOR AQ MULTIPLE ISSUER POOLS:			
January	January 1	January 1	February 1
April	April 1	April 1	May 1
July	July 1	July 1	August 1
October	October 1	October 1	November 1

Mortgages backing securities issued on the first day of:	Shall have **initial interest adjustment** at least one but no more than 18 months after the first payment date on:	Shall have **annual interest adjustments** thereafter on:	Shall have **payment adjustments** always 30 days later than the interest adjustments, on:
FOR AR CUSTOM POOLS:			
Any month	April 1	April 1	May 1
	July 1	July 1	August 1
	October 1	October 1	November 1
	January 1	January 1	February 1

Section 26-2(A)(3) (continued)

(a) The index:

The interest rate of each mortgage in an APM pool or loan package must be subject to an annual adjustment based on the published weekly average yield of U. S. Treasury securities adjusted to a constant maturity of one year. This index is published in Federal Reserve Statistical Release H-15 (H-15). The issuer must apply the index, using the most recently available figure, 30 days prior to a mortgage interest rate adjustment. In all cases, the issuer must use an exact day count. For example, if a mortgage rate interest rate adjustment date falls on the 1st day of a month that is preceded by a 31-day month, the index determination date will be the 2nd day of the preceding month. Ginnie Mae will publish periodically the applicable H-15 Release date to use for the quarterly interest rate adjustment dates. These dates must be used when adjusting pool or loan package interest rates.

H-15 is published on Monday of each week, except that if Monday is a federal holiday, H-15 is published on the following Tuesday. The release date, rather than the date on which the issuer receives the release, is considered to be the date that the publication is available to each issuer. If a release date and the index determination date coincide, the H-15 rate released on that date is considered to be available to an issuer whether or not the issuer has actually received the H-15 rate.

For example, if the day 30 days prior to an interest rate adjustment date is a Monday, the issuer must use the index rate contained in the H-15 released on that Monday in adjusting the interest rate on the mortgages in a pool or loan package. This is true without regard to when the issuer actually receives the H-15 released on that Monday.

Section 26-2(A)(3)(a) (continued)

If the day 30 days before an interest rate adjustment date falls on a Monday that is also a federal holiday and H-15 is not released until the following Tuesday, the issuer must use the index rate contained in the H-15 that was released on the preceding Monday.

If there is any question about the applicable issue date of the H-15 to be used for a particular adjustment of APM mortgage interest rates, the issuer should call the MBS hotline (see Addresses). The MBS hotline will carry the release date of the correct H-15 to use for a forthcoming interest rate adjustment date.

(b) Calculating adjustments:

(i) Each mortgage must provide for the initial and annual interest rate adjustment to be calculated by adding a “mortgage margin” to the published index and applying the rounding rule described in (iii) below.

(ii) The mortgage margin is the amount in basis points (BP) to be added to the published index in order to establish a mortgage interest rate adjustment. This mortgage margin is established by the originator of the loan prior to or at the time the loan is originated. It remains fixed for the life of the mortgage. It is not necessary that every mortgage in a pool or loan package have the same mortgage margin. The mortgage margin for a multiple issuer pool, however, must be at least 50 BP, but not more than 150 BP, higher than the security margin

Section 26-2(A)(3)(b) (continued)

(iii) The security margin must be not less than 100 BP nor more than 250 BP and must be divisible by 50. The mortgage margin, therefore, must be not less than 150 BP nor more than 400 BP.

(iv) The rounding rule is that the new mortgage interest rate must always be in eighths (1/8ths) of a percent. The rate, which is calculated by adding the mortgage margin to the published index, must be adjusted upward or downward to the nearest 1/8th of one percent, always making the calculation to three decimal places (e.g., 11.875).

(v) Notwithstanding the foregoing, the adjusted mortgage interest rate (A) must never be more than one percent higher or lower than the immediately preceding interest rate on the mortgage and (B) must never be more than five percent higher or lower than the initial interest rate on the mortgage.

(4) Responsibility of issuer: It is the issuer's responsibility to originate or acquire mortgages with initial mortgage interest rates, with identical interest rate adjustment dates and margins, and that comply with the other mortgage eligibility requirements contained in this chapter.

(5) Adjustment date extensions: A mortgage may have a first interest rate adjustment date later than 18 months after the first payment date on the loan if the issuer has received written approval of the extension from FHA or VA.

Section 26-2(A) (continued)

(6) Buydowns: APM loans that include buydown provisions are eligible for APM pools and loan packages. Mortgages containing buydown arrangements may constitute all or a portion of the mortgages in an APM pool or loan package.

Interest escrow custodial account: An interest escrow custodial account must be maintained in connection with buydown mortgages for the deposit of buydown funds provided by the issuer. This account must meet Ginnie Mae's escrow custodial account requirements (see Section 16-5), and it must meet FHA's and VA's requirements for such accounts.

(B) Pool and Loan Package Requirements

(1) APM mortgage pools and loan packages may be formed only under the Ginnie Mae II MBS Program.

(2) As of the issue date, (a) each custom AR pool, other than a pool formed pursuant to a BFP, must have an original principal amount of $500,000 ($250,000 if the pool was rejected for inclusion as a loan package in a multiple issuer pool in the preceding month), (b) each multiple issuer AR loan package must have an original principal amount of $250,000, and (c) each multiple issuer AQ loan package must have an original principal amount of $250,000.

(3) All mortgages in an APM pool or loan package must satisfy the requirements for that pool type set forth in Section 26-1.

(4) All mortgages in an APM pool or loan package must be adjustable through changes in the mortgage interest rate and have (a) the same index upon which the interest rate is based, (b) the same reference date for determining the applicable index value, and (c) the same date for adjusting the interest payment.

(5) All of the interest rate adjustment dates for an APM pool or loan package must occur at 12 month intervals and on one of the following dates: January 1, April 1, July 1, and October 1.

26-3: REQUIRED DOCUMENTS

The procedures and basic document requirements for submission of all pools and loan packages are found in Chapters 10, 11, and 13.

(A) For Certification by Document Custodian

The loan documents required for initial and final certification of an APM pool by the document custodian are the same as those discussed in Section 13-4. They are summarized in the following table.

DOCUMENT	FORM NUMBER	APPENDIX
FOR INITIAL CERTIFICATION		
Schedule of Pooled Mortgages	HUD 11706	III-7
Release of Security Interest, executed original, if applicable	HUD 11711A	III-5
Certification and Agreement, executed original	HUD 11711B	III-5
Original notes (or, in the case of modified loans, the original notes executed for the modifications) or other evidences of indebtedness, endorsed in blank, without recourse		
Assignments of mortgages or security instruments to Ginnie Mae, in recordable form but not recorded (not required for loans registered on MERS)		
For nonprofit agency section 203(k) loans, FHA affordable housing program letters		
FOR FINAL CERTIFICATION		
Original recorded mortgages (or, in the case of modified loans, the recorded original mortgages, the related original notes, the modification agreements, and any required subordination agreements and/or title endorsements)		
All recorded interim assignments		
Evidence of good title (e.g., mortgage title insurance policies)		
Original evidence of insurance or guaranty, signed by FHA or VA		

Section 26-3 (continued)

(B) For Approval by PPA and Ginnie Mae

The APM pool and loan package documents required for approval by Ginnie Mae are the same as those discussed in Section 10-3, except as modified below.

(1) All references to "pool number" on all forms must include the suffix "AR" or “AQ.”

(2) Schedule of Subscribers and Ginnie Mae Guaranty Agreement, form HUD 11705 (Appendix III-6), which must indicate in the block “Type of Issue” that the pool is to be “C” or “M” and in the block “Pool Type” that the securities are to be "AR" or “AQ.”

(3) Schedule of Pooled Mortgages, form HUD 11706 (Appendix III-7), which must identify each of the loans by including in the column titled "FHA-VA-RHS-PIH Case Number" the full agency designated number, including the code identifying each loan as an APM. Also, list under the "Monthly Constant (P&I)" just the fixed installment constant applicable to the payment for the first month the loan is in the pool.

(4) If a custom pool is submitted in paper submission format, a prospectus, form HUD 11772-II (Appendix IV-21), which must be modified, if appropriate, in accordance with Section 24-2(B)(3)(c)(iii). If an APM pool contains one or more buydown mortgages, the prospectus must satisfy Section 25-3(B)(4).

(5) A BFP certification (Appendix III-12) if required pursuant to Sections 26-2 and 24-2(B)(2).

(6) If one or more mortgages have a first interest rate adjustment date more than 18 months after the first payment date on the mortgage, a copy of the FHA or VA letter, as applicable, approving an extension to the interest rate adjustment date for each such mortgage.

Section 26-3(B) (continued)

The following table lists the pool and loan package documents required by the PPA for approval of APM pools.

DOCUMENT NAME	FORM NUMBER	APPENDIX
Schedule of Subscribers and Ginnie Mae Guaranty Agreement	HUD 11705	III-6
Schedule of Pooled Mortgages	HUD 11706	III-7
Master Servicing Agreement	HUD 11707	III-1
Master Agreement for Servicer's Principal and Interest Custodial Account	HUD 11709	III-2
Master Agreement for Servicer's Escrow Custodial Account	HUD 11720	III-3
Master Agreement for Servicer’s Escrow Custodial Account (custodial account for deposit of buydown funds provided by issuer)	HUD 11720	III-3
Master Custodial Agreement	HUD 11715	III-4
Prospectus (for custom pools submitted in paper format)	HUD 11772-II	IV-21
BFP certification, if required		III-12
FHA or VA letter approval extension of interest rate adjustment date, if applicable		

26-4: THE SECURITIES AND MARKETING DISCLOSURE

Preparation and delivery of the securities through the depository are described in Chapter 12. The text of APM securities held in certificated form is set forth in Appendix IV-26. A partial statement of the terms of APM securities held in uncertificated form is set forth in Appendix IV-28. This section describes additional requirements for securities backed by APM pools.

Section 26-4 (continued)

(A) Marketing Disclosure

APM securities must be clearly differentiated from other types of Ginnie Mae MBS in all forward market and other transactions. Therefore: In all communications relating to such transactions, issuers must clearly disclose that the securities to be delivered are backed by an APM pool and the type of APM mortgages involved. Also, before delivery, issuers must obtain for their records from each dealer or investor to which the issuer is selling securities a confirmation statement clearly disclosing the nature of the pool underlying the securities to be delivered.

If an APM pool includes one or more buydown mortgages, the marketing disclosure must also satisfy Section 24-4.

An issuer must retain these confirmation statements as records subject to Ginnie Mae's right of inspection.

The APM securities are distinguishable from other Ginnie Mae MBS by the suffix "AR" or “AQ” in each certificate number.

(B) Securities Interest Rate

Securities backed by APM mortgages bear an interest rate that is adjusted annually as provided below in this section

The issuer is responsible for calculating the annual adjustments to the interest rate on the securities. The CPTA, however, will independently calculate the annual adjustment to the interest rate on the securities and the amounts due security holders thereafter.

(1) Initial security interest rate: The initial interest rate on each issue of APM securities will be established by the issuer,

(2) Security margin: The security margin will be established by the issuer, but it must be not less than 100 BP and not more than 250 BP. In addition, the security margin must be at least 50 BP below but not more than 150 BP below the mortgage margin of every mortgage in the pool.

Section 26-4(B) (continued)

(3) Security interest rate adjustment: Each issue of APM securities must have annual interest rate and payment adjustments. Each interest rate adjustment date and each payment adjustment date for an issue of securities must occur in compliance with the following table:

For AR Multiple Issuer Pools:

Securities issued on the first day of:	Shall have initial interest adjustment 13, 14, or 15 months later, on:	Shall have annual interest adjustments thereafter on:	Shall have payment adjustments always 50 days later than the interest adjustments, on:
Jan., Feb., March	April 1	April 1	May 20
April, May, June	July 1	July 1	Aug. 20
July, Aug., Sept.	Oct. 1	Oct. 1	Nov. 20
Oct., Nov., Dec.	Jan. 1	Jan. 1	Feb.20

For AQ Multiple Issuer Pools:

Securities issued on the first day of:	Shall have initial interest adjustment 12 months later, on:	Shall have annual interest adjustments thereafter on:	Shall have payment adjustments always 50 days later than the interest adjustments, on:
January	Jan. 1	Jan. 1	Feb. 20
April	April 1	April 1	May 20
July	July 1	July 1	Aug. 20
October	Oct. 1	Oct. 1	Nov. 20

Section 26-4(B)(3) (continued)

For AR Custom Pools:

Securities issued in any month:	**Shall have initial interest adjustment at least one month but not more than 15 months on:**	**Shall have annual interest adjustments thereafter on:**	**Shall have payment adjustments always 50 days later than the interest adjustments, on:**
	April 1	April 1	May 20
	July 1	July 1	Aug. 20
	Oct. 1	Oct. 1	Nov. 20
	Jan. 1	Jan. 1	Feb.20

(4) Index: Each issue of APM securities must bear an interest that is adjustable based on a published index that is the weekly average yield on U. S. Treasury securities adjusted to a constant maturity of one year. This index is published in Federal Reserve Statistical Release H-15. The procedure for determining which H-15 release date to use in connection with a particular interest rate adjustment date is described in Section 26-2(A)(3)(a).

The H-15 release date required to be used in determining an adjustment to the interest rate on the securities must also be used in adjusting the interest rates on the related mortgages.

(5) Calculating adjustments: On the security interest rate adjustment date, the interest rate on the securities will be adjusted as follows:

(a) The index will be determined using the figure most recently available on the day 30 days prior to the security interest rate adjustment date.

Section 26-4(B)(5) (continued)

(b) The security margin must be added to the index, and the resulting sum must be rounded to the nearest 1/8th of a percent.

(c) This calculated interest rate will be compared with the existing interest rate on the securities. If the calculated interest rate is not more than one percentage point higher or lower than the current interest rate, it becomes the adjusted interest rate on the securities. If the calculated interest rate is more than one percentage point higher or lower than the current interest rate, the interest rate that is one percentage point higher or lower than the current interest rate on the securities will become the adjusted interest rate on the securities.

(d) In no case may the adjusted interest rate on the securities be more than five percentage points higher or lower than the initial interest rate on the securities.

26-5: POOL AND LOAN PACKAGE ADMINISTRATION

For APM pools and loan packages, the issuer must prepare and report to the Ginnie Mae Reports Group annually on form HUD 11748-C (Appendix VI-16) the change that will result in the Fixed Installment Control because of changes in the interest rates borne by the mortgages. Each adjustment must be filed to reflect changes scheduled to occur during the following reporting month. For example, the March report will be required to reflect the effect on the FIC of changes in interest rates scheduled to occur in April.

The issuer must submit forms HUD 11748-C by either (a) magnetic tape, (b) diskette, (c) the Ginnie Mae Data Exchange Bulletin Board System (BBS), or (d) the Issuer Information System (IIS) no later than the tenth calendar day of the month in which the report is required. Appendix VI-4 provides specifications and record layouts for these reporting media. The issuer must also maintain Form 11748-C for review by Ginnie Mae or its agent. If an issuer fails to apply those standards, and the failure results in the consistent rejection of the issuer's reports, Ginnie Mae, after adequate warning, may apply program sanctions to the issuer until compliance is obtained.